

## **Appendix 4**

**Excerpts from filing  
with SEC and  
Annual Report to  
Shareholders**

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1991

or

or

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-1414

## PACIFIC BELL

A California Corporation

I.R.S. Employer Number 94-0745535

140 New Montgomery Street, San Francisco, California 94105

Telephone - Area Code (415) 542-9000

Securities registered pursuant to Section 12(b) of the Act:

See attached Schedule A.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No   .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. | X |

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF PACIFIC TELESIS GROUP, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J (1) (a) and (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

OTHER CONTINUING MATTERS

Postretirement Benefits Other Than Pensions

In December 1990, the FASB issued Statement of Financial Accounting Standard No. 106 ("SFAS 106"), "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company currently offers postretirement benefits other than pensions ("postretirement benefits") which are primarily retiree health-care and life insurance benefits.

SFAS 106 requires that we change the method of accounting for these postretirement benefits from cash basis to accrual basis beginning in 1993. We expect our unrecognized liability, the transition obligation, to be approximately \$2.5 billion. The increase in annual cost is estimated to be approximately \$220 million in the year of adoption, but the effects on net income and the balance sheet are dependent on the specific ratemaking treatment ordered by our state and federal regulators. The Company cannot predict the ratemaking treatment at this time.

In 1990, the CPUC instituted a two-phase investigation into implementation of SFAS 106. Consideration of rate recovery for prefunding of the postretirement benefit obligation was deferred by the CPUC to Phase II. In addition to the prefunding issue, Phase II hearings will consider the full impact of SFAS 106 on ratemaking, including the extent to which recovery of the increased cost is appropriate under price cap regulation.

In a December 1991 order, the FCC allowed exchange carriers to adopt SFAS 106 for accounting purposes. The order requires the transition obligation to be amortized over 20 years. We expect the FCC will address ratemaking treatment for the increased costs of these postretirement benefits in 1992.

1992 Annual Price Cap Filing

In December 1991, the CPUC ordered us to reduce annual rates by about \$132 million beginning in 1992. This revenue reduction will be substantially offset by decreases in expenses of about \$100 million, primarily in depreciation expense.

Audit of Joint Ventures, Strategic Alliances, and Research and Development Projects

In December 1987, the CPUC authorized an examination of our joint ventures, strategic alliances, and research and development projects. In February 1992, the Company and the CPUC's Division of Ratepayer Advocates (the "DRA") jointly filed a settlement agreement. Subject to CPUC approval, we would reduce rates by about \$19 million annually retroactive to January 1990. It is anticipated that future revenues will be reduced to reflect a final settlement agreement. The proposed settlement also deferred an issue for further proceedings which could result in an additional one-time refund of about \$21 million. We are unable to predict the outcome of this matter.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Other Postretirement Benefits**

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106 ("SFAS 106"), "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company currently offers postretirement benefits other than pensions ("postretirement benefits") which are primarily retiree healthcare and life insurance benefits.

SFAS 106 requires the Company to change the method of accounting for these postretirement benefits from a cash basis to an accrual basis beginning in 1993. The Company expects its unrecognized liability, the transition obligation, to be approximately \$2.5 billion. The increase in annual cost is estimated to be approximately \$220 million in the year of adoption, but the effects on net income and the balance sheet are dependent on the specific ratemaking treatment ordered by state and federal regulators. The Company cannot predict the ratemaking treatment at this time.

### C. EMPLOYEE RETIREMENT PLANS

Additionally during 1990, the Company amended certain of its pension plans to increase benefits for specified employees who elect early retirement. During 1990, approximately 1,800 employees elected early retirement under these amendments.

ded certain of its pension plans of employees who elect early retirement. During 1990, approximately 1,800 employees elected early retirement under these amendments.

The Company has entered into negotiations with union-represented employees in the past and expects to do so in the future. Pension benefits have been included in negotiations, and improvements in benefits have been made periodically. Additionally, the Company has increased benefits to pensioners on an ad hoc basis. While no assurance can be offered with respect to future increases, the Company's expectations for future benefit increases have been reflected in determining pension costs.

#### Defined Contribution Plans

The Company also participates in certain Pacific Telesis Group-sponsored defined contribution retirement plans that cover substantially all of the Company's employees. These include the Pacific Telesis Group Supplemental Retirement and Savings Plan for Salaried Employees and the Pacific Telesis Group Supplemental Retirement and Savings Plan for Nonsalaried Employees (collectively, the "Savings Plans"). The Company's contributions to the Savings Plans are based on matching a portion of eligible employee contributions.

During 1989, the Savings Plans were amended to require that, effective March 1, 1990, all matching employer contributions will be made through a leveraged employee stock ownership ("ESOP") trust. Total Company contributions to these plans including contributions allocated to participant accounts through the leveraged ESOP trust were \$66 million, \$66 million and \$64 million in 1991, 1990, and 1989 respectively.

### D. POSTRETIREMENT HEALTH AND LIFE INSURANCE BENEFITS

The Company provides health care benefits for retired employees and their eligible dependents and provides life insurance benefits for retired employees. At December 31, 1991, approximately 40,000 retirees were eligible to receive these benefits. Employees become eligible upon retirement with eligibility for a service pension. The Company retains the right, subject to applicable legal requirements, to amend or terminate these benefits.

Postretirement health care costs are expensed as claims are incurred. Postretirement life insurance benefits are expensed on an advance-funded basis for retirees and certain active employees. The costs of these benefits recognized in 1991, 1990, and 1989 were \$107 million, \$103 million, and \$100 million, respectively. During 1990 and 1989, the Company contributed \$134 million and \$136 million, respectively, to a bargained Voluntary Employees' Beneficiary Association ("VEBA") trust to prefund postretirement health and welfare benefits for certain active and retired employees.

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Securities registered pursuant to Section 12(b) of the Act:

See attached Schedule A.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No   

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF PACIFIC TELESIS GROUP, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J (1) (a) and (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

## Management's Discussion and Analysis of Results of Operations (continued)

### Interest Expense

(\$ millions)	1992	1991	Change	
			Amount	Percent
Interest expense	\$460	\$485	-\$25	-5.2

Interest expense decreased \$20 million due to a reduced borrowing level and reduced interest rates on short term debt. Reduced interest rates on long term debt decreased interest expense an additional \$5 million.

### OTHER CONTINUING MATTERS

#### Postretirement Benefits Other Than Pensions

In December 1990, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 106 ("SFAS 106"), "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company currently offers postretirement benefits other than pensions ("postretirement benefits"), which are primarily retiree health care and life insurance benefits.

SFAS 106 requires the Company to change the method of accounting for these postretirement benefits from a cash basis to an accrual basis. The Company expects its unrecognized liability, the transition obligation, to be about \$2.5 billion. The transition obligation may be amortized over 20 years or recognized immediately in operations. If the transition obligation is amortized over 20 years, the increase in annual cost is estimated to be approximately \$200 million in the year of adoption.

In December 1992, the CPUC issued a decision adopting, with modification, SFAS 106 for regulatory accounting purposes. This decision requires amortization of the Company's transition obligation liability over 20 years. The CPUC's decision allows recovery of postretirement benefits costs on an accrual basis subject to certain limitations. Recovery is limited to tax-deductible funding. Annual rate increases to recover postretirement benefits costs are limited to one percent of the prior year's total operating revenues. The one percent limit is applied to net changes to the annual price cap revenue base. The CPUC's decision suggests that costs not recovered currently due to these limitations can be recovered in future years subject to the same limitations. The CPUC granted a \$108 million rate increase for 1993 to provide intrastate recovery of anticipated contributions to tax deductible postretirement trust funds.

## Management's Discussion and Analysis of Results of Operations (continued)

### Postretirement Benefits Other Than Pensions

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In January 1993, the FCC denied the Company's application to increase rates \$21 million annually to recover the increased costs of SFAS 106. The FCC determined that the Company had not adequately demonstrated that this accounting change had met the FCC's test for special rate treatment under the price cap program.

### Postemployment Benefits

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In November 1992, the FASB issued Statement of Financial Accounting Standards No. 112 ("SFAS 112"), "Employers' Accounting for Postemployment Benefits." The Company offers workers' compensation, disability benefits, disability-related pensions, medical benefit continuation and severance pay. These benefits are paid to former employees not considered retired.

SFAS 112 requires that the Company change its method of accounting for postemployment benefits from a cash basis to an accrual basis beginning in 1994. The Company is evaluating the level of the liability. After the year of adoption, we expect that periodic expense will not differ materially from current expense. Transition effects on net income and the balance sheet are dependent on whether rate recovery is obtained from regulators. The Company is unable to predict the ratemaking treatment at this time.

### 1993 Annual Price Cap Filing

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In December 1992, in response to the Company's annual price cap filing, the CPUC ordered a \$12 million annual rate reduction effective January 1993. The net reduction represents a \$120 million rate reduction offset largely by a \$108 million rate increase related to the adoption of SFAS 106. The rate reduction portion is primarily due to the 4.5 percent productivity factor in the price cap formula exceeding the increase in the Gross National Product Price Index for 1992 by 1.4 percent.

### Authority to Issue Debt

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In December 1992, the CPUC approved the Company's application for authority to issue up to \$2.1 billion of long- and intermediate-term debt securities. The proceeds will be used to refund maturing debt and to refinance other debt issues.

In February 1993, the Company obtained authority to issue an additional \$1.3 billion of long- and intermediate-term debt for a total of \$1.325 billion through a shelf registration statement with the Securities and Exchange Commission (the "SEC").



A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Postretirement Benefits

In December 1990, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 106 ("SFAS 106"), "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS 106 must be implemented by January 1, 1993. The Company offers postretirement benefits other than pensions ("postretirement benefits") which are primarily retiree healthcare and life insurance benefits.

SFAS 106 requires the method of accounting for these postretirement benefits to change from a cash basis to an accrual basis. The Company expects its unrecognized liability, the transition obligation, to be approximately \$2.5 billion. The transition obligation must be amortized over 20 years or recognized immediately in operations. If the transition obligation is amortized over 20 years, the increase in annual cost is estimated to be \$200 million in the year of adoption.

In December 1992, the California Public Utilities Commission (the "CPUC") issued a decision requiring the Company to amortize its transition obligation over 20 years for regulatory accounting purposes. The CPUC granted a \$108 million rate increase for 1993 to recover tax-deductible contributions.

Postemployment Benefits

In November 1992, the FASB issued Statement of Financial Accounting Standards No. 112 ("SFAS 112"), "Employers' Accounting for Postemployment Benefits." The Company offers workers' compensation, disability benefits, disability-related pensions, medical benefit continuation and severance pay. These benefits are paid to former employees not considered retired.

SFAS 112 requires that the Company change its method of accounting for postemployment benefits from a cash basis to an accrual basis beginning in 1994. The Company is evaluating the level of the liability. After the year of adoption, we expect that periodic expense will not differ materially from current expense. Transition effects on net income and the balance sheet are dependent on whether rate recovery is obtained from regulators. The Company is unable to predict the ratemaking treatment at this time.

### C. EMPLOYEE RETIREMENT PLANS (continued)

In 1990, the Company amended certain of its pension plans to increase benefits for specified groups of employees. In 1990, approximately 1,800 employees elected early retirement under these amendments.

The Company has entered into labor negotiations with its union-represented employees in the past and expects to do so in the future. Pension benefits have been included in these negotiations and improvements in benefits have been made periodically. Additionally, the Company has increased benefits to pensioners on an ad hoc basis. While no assurance can be offered with respect to future increases, the Company's expectations for future benefit increases have been reflected in determining pension costs.

#### Defined Contribution Plans

The Company also participates in certain Pacific Telesis Group-sponsored defined contribution retirement plans that cover substantially all of the Company's employees. These include the Pacific Telesis Group Supplemental Retirement and Savings Plan for Salaried Employees and the Pacific Telesis Group Supplemental Retirement and Savings Plan for Nonsalaried Employees (collectively, the "Savings Plans"). The Company's contributions to the Savings Plans are based on matching a portion of eligible employee contributions.

Effective March 1, 1990, all matching employer contributions are made through a leveraged employee stock ownership ("ESOP") trust. Total Company contributions to these plans including contributions allocated to participant accounts through the leveraged ESOP trust were \$61 million, \$66 million and \$66 million in 1992, 1991 and 1990 respectively.

### D. POSTRETIREMENT HEALTH AND LIFE INSURANCE BENEFITS

The Company provides health care benefits for retired employees and their eligible dependents and provides life insurance benefits for retired employees. At December 31, 1992, approximately 40,000 retirees were eligible to receive these benefits. Employees become eligible upon retirement with eligibility for a service pension. The Company retains the right, subject to applicable legal requirements, to amend or terminate these benefits.

Postretirement health care costs have been expensed as claims were incurred. Postretirement life insurance benefits were expensed on an advance-funded basis for retirees and certain active employees. The costs of these benefits recognized in 1992, 1991 and 1990 were \$103 million, \$107 million and \$103 million, respectively.

# SECURITIES AND EXCHANGE COMMISSION

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THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF PACIFIC TELESIS GROUP, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J (1) (a) and (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

## RESULTS OF OPERATIONS

Operating Statistics	1993	1992	Change	
			Amount	Percent
Return on average common equity ....	(2.1%)	15.5%	(17.6)	-
Operating ratio .....	93.4%	73.7%	19.7	-
Total employees .....	54,026	55,542	(1,516)	(2.7)
Revenues per employee (thousands) ..	\$165	\$158	\$ 7	4.4
Employees per ten thousand access lines* .....	35.3	37.0	(1.7)	(4.6)

\* Excludes Directory employees

(\$ millions)	1993	1992	Change	
			Amount	Percent
Net income (loss) .....	\$ (130)	\$1,131	(1,261)	(111.5)

The 1993 reported loss of \$130 million reflects a restructuring charge relating to planned force reductions, associated curtailment, and the adoption of new accounting rules for postemployment benefits. (See "Operating Expenses" and "Cumulative Effect of Accounting Change" on pages 36 and 39, respectively.) After tax, the charge for the restructuring reduced earnings by \$576 million. The Company also recorded a \$348 million after-tax curtailment charge to accelerate recognition of a portion of its embedded postretirement benefits costs that would otherwise have been recorded over the next 19 years. In addition, the Company restated first quarter 1993 results to recognize an after-tax charge totaling \$148 million due to the adoption of new accounting rules for postemployment benefits.

1993 earnings were also reduced by several other one-time items totaling \$53 million, and by about \$33 million as the net impact of adopting new accounting rules for postretirement benefits. (See - "Change in Accounting for Postretirement and Postemployment Costs" on page 51.) 1992 earnings were increased by several one-time items totaling \$25 million which contributed to the comparative decrease.

Looking ahead, short-term results are expected to continue to be affected by increasing competition and a continuing recession in California. However, long-term growth prospects and recovery of the California economy should provide opportunity for stronger earnings.

In 1991, the Company recorded a \$201 million pre-tax restructuring charge which included \$166 million for the cost of force reduction programs through 1994 and \$35 million for associated pension expense. After reduction for incremental force reduction costs in 1993 and 1992, the remaining balance of this reserve as of December 31, 1993 and 1992 was approximately \$77 million and \$101 million, respectively. The 1993 restructuring charge is net of the \$77 million remaining balance in the 1991 restructuring reserve.

In addition, the Company recorded a \$590 million pre-tax charge to accelerate recognition of a portion of the embedded postretirement benefits costs that would otherwise have been recorded over the next 19 years. Accelerated recognition of these costs is required under the curtailment provisions of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" ("SFAS 106") because the Company expects to significantly reduce its workforce.

Without the effects of the restructuring and curtailment charges, total operating expenses would have increased by \$295 million compared to 1993. Higher costs for postretirement benefits under the new accounting rules were responsible for the largest portion of this increase. Miscellaneous one-time items accounted for \$75 million of the increase and salaries and wages increased \$74 million. Expense increases were partially offset by a decrease of \$51 million in Signaling System 7 ("SS-7") licensing fees because of the substantial progress made on the upgrade program in 1992. The completion of the amortization of CPUC equal access costs in 1992 also lowered 1993 expenses by \$23 million.

In January 1994, an earthquake damaged 31 Company buildings in the Los Angeles area. The Company estimates repair costs may approach \$25 million. The Company is insured for property damage exceeding this amount.

#### Salary and Wage Expense

(\$ millions)	1993	1992	Change	
			Amount	Percent
Salary and wage expense .....	\$2,169	\$2,095	\$74	3.5
Employees-Average during year ....	55,038	56,805	(1,767)	(3.1)
Employees-End of year .....	54,026	55,542	(1,516)	(2.7)

Salary and wage expense is the largest component of total operating expenses. Higher compensation rates increased salary and wages by \$73 million primarily due to a nonsalaried wage increase. In September 1992, labor contracts were reached with unions which represent about 70 percent of the Company's employees. The agreements provide a 12 percent increase in wages, including job upgrades, and a 13 percent increase in pensions over the three-year term. In addition, the contracts include incentives for early retirement, enhanced employment security, improvements in work and family life benefits, and increases in health care and dental care coverage. Salaries and wages increased \$38 million due to overtime pay for extended customer service hours. In December, the Company scaled back these extended hours due to a lack of customer demand. These increases were partially offset by a \$55 million decrease due to fewer employees.

## Depreciation and Amortization

(\$ millions)	1993	1992	Change	
			Amount	Percent
Depreciation and amortization .....	\$1,703	\$1,674	\$29	1.7
Depreciation as a percent of average depreciable plant (%) ...	6.9	7.0	(0.1)	-

Depreciation expense increased primarily due to an expanded plant base resulting from accelerated network modernization. The Company's planned capital expenditures are expected to further increase plant levels causing higher depreciation expense in future years.

## Other Employee-Related Expenses

(\$ millions)	1993	1992	Change	
			Amount	Percent
Postretirement Benefits .....	\$338	\$103	\$235	228.2
Healthcare and life insurance benefits of active employees** ..	\$221	\$231	(10)	(4.3)
Other benefits** .....	\$126	\$142	(16)	(11.3)
Payroll taxes .....	\$175	\$169	6	3.6
Pensions .....	0	5	(5)	(100.0)
Total* .....	\$860	\$650	\$210	32.3

\* Excludes SFAS 106 curtailment and postemployment benefits accounting change (See - "Cumulative effect of Accounting Change" on page 39)

\*\* 1992 amounts have been revised to conform to the current presentation.

Other employee-related expense increased primarily due to the adoption of SFAS 106 effective January 1, 1993. The adoption of SFAS 106 increased postretirement benefits expense by \$173 million.

Prior to 1993, all postretirement benefits were charged to general, administrative, and other expense. Beginning in 1993, these costs were also allocated to all line items on the income statement that include salaries and wages expense. This caused employee benefits in cost of products and services to increase by \$121 million, customer operations and selling expenses to increase by \$148 million and general and administrative expense to decrease by \$90 million.

## Income Taxes

(\$ millions)	1993	1992	Change	
			Amount	Percent
Income taxes .....	\$(57)	\$607	\$(664)	(109.4)
Effective tax rate (%) .....	132.4	36.1	96.3	-

## PACIFIC BELL AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation

Pacific Bell, (the "Company"), a wholly owned subsidiary of Pacific Telesis Group, provides telecommunications services including local exchange, network access and toll services; directory advertising through its wholly owned subsidiary, Pacific Bell Directory ("Directory"); and selected information services through its wholly owned subsidiary, Pacific Bell Information Services ("PBIS").

The Consolidated Financial Statements include the accounts of Pacific Bell, Directory, and PBIS. All significant intercompany balances and transactions have been eliminated.

The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles. In accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," the Company is required to reflect rate actions of regulators in the financial statements when appropriate.

##### Change in Accounting for Postretirement and Postemployment Costs.

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" ("SFAS 106"). This new rule requires a change from the cash to accrual method of accounting for these costs. Previously, the Company expensed these retiree benefits as they were paid. The Company is amortizing the transition obligation over 20 years. The transition obligation represents the unrecognized cost of benefits that had already been earned by retirees and active employees when the new standard was adopted.

This treatment is consistent with a CPUC decision which granted Pacific Bell \$108 million for partial recovery of 1993 SFAS 106 costs. The CPUC requires that any recoveries granted be used solely to pay for future postretirement benefits. Therefore, the Company contributes these recoveries to Voluntary Employee Benefit Association trusts. The Company is required to file annually for recovery in conjunction with the price cap filing, and therefore such recovery will vary. The 1994 CPUC price cap decision grants Pacific Bell \$100 million for partial recovery of SFAS 106 costs. Two ratepayer advocacy groups have each challenged certain aspects of the decision adopting SFAS 106 for ratemaking, which could affect recovery. The Company is unable to predict the outcome of these pending challenges.

The ongoing periodic expense recognized by the Company under SFAS 106 during 1993 amounted to \$338 million before taxes. The \$338 million represents an increase of about \$183 million over the previous method.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 112 ("SFAS 112"), "Employer's Accounting for Postemployment Benefits." SFAS 112 establishes accounting standards for benefits that are provided to former or inactive employees after employment but before retirement (e.g., workers' compensation, long-term disability benefits and disability pensions.)

The new Statement requires immediate recognition of the cumulative effect of applying the new rule to prior years. The Company restated first quarter 1993 results to recognize a postemployment benefit liability of \$251 million. The net income impact of adopting this accounting standard was \$148 million, net of a deferred income tax benefit of \$103 million. In subsequent years, the Company expects that periodic expense will not differ materially from expense under the prior method.

Cash and Cash Equivalents

The Company considers all highly liquid monetary instruments with maturities of 90 days or less from the date of purchase to be cash equivalents.

Income Taxes

Pacific Telesis Group allocates consolidated taxes as if the Company were a separate taxpayer. The Company records its share of the consolidated taxes as tax liabilities and pays amounts due to tax authorities through Pacific Telesis Group.

Deferred income taxes are provided to reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Investment tax credits earned prior to their repeal by the Tax Reform Act of 1986 are amortized as reductions in tax expense over the lives of the assets which gave rise to the credits.

Property, Plant, and Equipment

Property, plant, and equipment, (which consists primarily of telephone plant dedicated to providing telecommunications services) is carried at cost. The cost of self-constructed plant includes employee wages and benefits, materials and other costs. Regulators allow the Company to accrue an allowance for funds used during construction as a cost of constructing certain plant and as an item of income. This income is not realized in cash currently, but will be realized over the service lives of the related plant.

Depreciation of telephone plant is computed primarily using the remaining-life method, essentially a form of straight-line depreciation, using depreciation rates prescribed by state and federal regulatory agencies. When retired, the original cost of depreciable telephone plant is charged to accumulated depreciation.

Include treatment of Advertising Costs  
per New SOP



A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures in excess of \$500 that increase the capacity, operating efficiency or useful life of an individual asset are capitalized. Expenditures for maintenance and repairs are charged to expense.

Premium on Debt Retirement

When debt is refinanced before maturity, the Company recognizes as expense any difference between net book value and redemption price evenly over the term of the replacing issue for intrastate operations, in accordance with the ratemaking treatment of such costs. These costs are expensed as incurred for interstate operations.

B. RESTRUCTURING AND CURTAILMENT

During 1993, the Company recorded a pre-tax restructuring charge of \$977 million to recognize the incremental cost of force reductions associated with reengineering its internal business processes through 1997. This charge will cover the incremental severance costs associated with terminating approximately 14,400 employees from 1994 through 1997. It will also cover the incremental costs of consolidating and streamlining operations and facilities to support this downsizing initiative.

In addition, the Company recorded a \$590 million pre-tax expense to accelerate recognition of a portion of its embedded post-retirement benefits costs that would otherwise have been recorded over the next 19 years. Accelerated recognition of these costs is required under the curtailment provisions of SFAS 106 because the Company expects to significantly reduce its workforce. Because Pacific Telesis Group already recognized all of its post-retirement benefit transition costs in the first quarter 1993, this additional charge did not affect its consolidated financial statements.

In 1991 the Company recorded a \$201 million pre-tax restructuring charge which included \$166 million for the cost of management force reduction programs through 1994 and \$35 million for associated pension expense.

C. INCOME TAXES

Effective January 1, 1992, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes." This standard requires companies to record all deferred tax liabilities or assets for the deferred tax consequences of all temporary differences, and requires ongoing adjustments for enacted changes in tax rates and regulations. Specific provisions of SFAS 109 require regulated companies to record an asset or a liability when recognizing deferred income taxes, if it is probable that these deferred taxes will be reflected in future rates.

D. EMPLOYEE RETIREMENT PLANS (Continued)

E.

The Company has entered into labor negotiations with its represented employees in the past and expects to continue to do so. Pension benefits have been included in these negotiations. Pension improvements in benefits have been made periodically. The Company has increased benefits to pensioners on an annual basis. The Company has can be offered with respect to future pension benefits. The Company's expectations for future benefit increases are reflected in determining pension costs.

Defined Contribution Plans

The Company also participates in certain Pacific Telesis Group-sponsored defined contribution retirement plans covering substantially all employees. These plans include the Pacific Telesis Group Supplemental Retirement and Savings Plan for Salaried Employees and the Pacific Telesis Group Supplemental Retirement and Savings Plan for Nonsalaried Employees (collectively, the "Savings Plans").

The Company's contributions to the Savings Plans are based on matching a portion of eligible employee contributions. All matching employer contributions to the Savings Plans are made through a leveraged employee stock ownership ("ESOP") trust. Total Company contributions to these plans, including contributions allocated to participant accounts through the leveraged ESOP trust, were \$64 million, \$61 million and \$66 million in 1993, 1992 and 1991, respectively.

E. OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

Substantially all retirees and their dependents are covered under the Company's plans for medical, dental and life insurance benefits. Approximately 40,000 retirees were eligible to receive these benefits as of January 1, 1993. Employees become eligible upon retirement with eligibility for a service pension. The Company retains the right, subject to applicable legal requirements, to amend or terminate these benefits.

Currently, the Company pays the full cost of retiree benefits; however, future cost sharing provisions are reflected in the current postretirement benefit cost and liability. Beginning in 1999, employees retiring in 1991 onward will pay a share of the costs of medical coverage that exceed a defined dollar medical cap.

# E. OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS (Continued)

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). The standard requires that the cost of these benefits be recognized in the financial statements from an employee's date of hire until the employee becomes eligible for these benefits. Previously, the Company expensed these retiree benefits as they were paid. The Company is amortizing the transition obligation over 20 years. The transition obligation represents the unrecognized cost of benefits that had already been earned by retirees and active employees when the new standard was adopted. This treatment is consistent with a CPUC decision which granted Pacific Bell \$108 million for partial recovery of 1993 SFAS 106 costs. The CPUC requires that any recoveries granted be used solely to pay for future postretirement benefits. Therefore, the Company contributes these recoveries to Voluntary Employee Benefit Association trusts. The Company is required to file annually for recovery in conjunction with the price cap filing, and therefore such recovery will vary. The 1994 CPUC price cap decision grants Pacific Bell \$100 million for partial recovery of SFAS 106 costs. Two ratepayer advocacy groups have each challenged certain aspects of the decision adopting SFAS 106 for ratemaking, which could affect recovery. The Company is unable to predict the outcome of these pending challenges.

The ongoing periodic expense recognized by the Company under SFAS 106 during 1993 amounted to \$338 million before taxes. The \$338 million represents an increase of about \$183 million over the previous method. Prior to 1993, postretirement health care costs were expensed as claims were incurred. Postretirement life insurance benefits were expensed on an advance-funded basis for retirees and certain active employees. The costs of these benefits recognized in 1992 and 1991 were \$103 and \$107 million, respectively.

Plan assets are invested primarily in domestic and international stocks and domestic investment-grade bonds. The assumed long-term rate of return on plan assets is 8.5 percent. The assumed discount rate, used to measure the accumulated postretirement benefit obligation was 7.5 percent at December 31, 1993.

The components of net periodic postretirement benefit cost for 1993 are as follows:

(Dollars in millions)	1993
Service cost .....	\$ 40
Interest cost on accumulated postretirement benefit obligation .....	242
Actual return on plan assets .....	(79)
Net amortization and deferral.....	160
Curtailement due to force reduction .....	632
	-----
Postretirement periodic benefit cost .....	\$995
=====	=====

## OTHER POSTRETIREMENT AND POSTEMPLOYMENT

7S (continued)

F. I

The funded status of the plans is as follows:

(Dollars in millions)		December 31, 1993
-----		
Accumulated postretirement benefit obligation at September 30, 1993:		
Retirees .....		\$2,314
Eligible active employees .....		207
Other active employees .....		919
		-----
Total accumulated postretirement benefit obligation .....		3,440
Less:		
Fair value of plan assets at September 30, 1993*...	(708)	
Contributions during fourth quarter 1993.....	(78)	
Transition obligation .....	(1,799)	
Unrecognized net loss**.....	(328)	
		-----
Accrued net postretirement benefit obligation recognized in the consolidated balance sheets at December 31, 1993.....		\$ 527
=====		

\* Estimated allocation of the Company's portion of Pacific Telesis Group plans.

\*\* The unrecognized net loss is amortized over time and reflects differences between actuarial assumptions and actual experience. It also includes the impact of changes in actuarial assumptions.

An annual increase in health care costs of approximately 14 percent is assumed for retirees in 1993. A 13 percent increase is assumed for 1994, declining to an ultimate rate of 6 percent by the year 2002. Should the health care cost trend rate increase by one percent each year, the 1993 increase would be \$416 million for the accumulated postretirement benefit obligation and \$38 million for the combined service and interest cost components of net periodic cost.

As of January 1, 1993, the Company adopted SFAS 112 for accounting for postemployment benefits. Postemployment benefits offered by the Company include workers' compensation, disability benefits, disability-related pensions, medical benefit continuation, and severance pay. These benefits are paid to former or inactive employees not yet retired.

SFAS 112 requires a change from cash to accrual accounting by recording a cumulative catch-up-charge at implementation. A one-time, noncash charge was recorded against earnings applicable to continuing operations of \$148 million, which is net of a deferred income tax benefit of \$103 million. In subsequent years, the Company expects that periodic expense will not differ materially from expense under the prior method.

# I. ADDITIONAL FINANCIAL INFORMATION

	December 31	
(Dollars in millions)	1993	1992
<b>Prepaid expenses and other current assets:</b>		
Prepaid directory expenses .....	\$336	\$332
Miscellaneous prepaid expenses .....	23	25
Notes and other receivables .....	45	73
Materials and supplies .....	68	70
Current deferred income tax benefits .....	346	302
Pacific Telesis Group and subsidiaries .....	17	9
Other .....	27	25
<b>Total .....</b>	<b>\$862</b>	<b>\$836</b>
<b>Property, plant, and equipment - net:</b>		
Land and buildings .....	\$ 2,538	\$ 2,417
Cable, conduit, and connections .....	10,251	9,878
Central office equipment .....	9,396	9,358
Furniture, equipment, and other .....	2,906	2,897
Construction in progress .....	569	514
	25,660	25,064
Less: accumulated depreciation	9,708	9,276
<b>Total .....</b>	<b>\$15,952</b>	<b>\$15,788</b>
<b>Deferred charges and other noncurrent assets:</b>		
Deferred charges .....	\$ 107	\$ 225
Deferred compensated absence .....	226	223
SFAS 87 pension deferral .....	367	330
Investments .....	79	67
→VEBA III .....	176	181
Other .....	34	28
<b>Total .....</b>	<b>\$ 989</b>	<b>\$1,054</b>
<b>Other accounts payable:</b>		
Pacific Telesis Group and subsidiaries .....	\$ 23	\$ 15
AT&T and subsidiaries .....	214	240
Payroll .....	52	42
Checks outstanding .....	177	235
Switch replacements .....	132	-
Incentive awards payable .....	188	182
Bellcore .....	19	19
Other .....	205	141
<b>Total .....</b>	<b>\$1,010</b>	<b>\$874</b>

# I. ADDITIONAL FINANCIAL INFORMATION (continued)

	December 31	
(Dollars in millions)	1993	1992
<b>Other current liabilities:</b>		
Taxes accrued .....	\$ 25	\$ 94
Interest accrued .....	114	119
Advance billing customers' deposits .....	269	247
Accrued compensated absence .....	284	272
Accrued refunds .....	-	40
Deferred regulatory liabilities (SFAS 109) ...	120	150
Restructuring .....	274	70
Other .....	50	25
<b>Total .....</b>	<b>\$1,136</b>	<b>\$1,017</b>
<b>Other noncurrent liabilities and deferred credits:</b>		
Unamortized investment tax credits .....	\$ 526	\$ 574
Accrued pension cost liability .....	620	573
Deferred regulatory liabilities (SFAS 109) ...	108	356
Workers' compensation .....	175	68
Restructuring .....	823	31
→SFAS 106 Liability.....	703	-
Other .....	303	198
<b>Total .....</b>	<b>\$3,258</b>	<b>\$1,800</b>

## For the Year Ended December 31

(Dollars in millions)	1993	1992	1991
<b>Other revenues:</b>			
Directory advertising .....	\$ 989	\$1,003	\$1,002
Billing and collections .....	79	86	96
Non-regulated revenue .....	169	112	82
Other .....	121	129	132
<b>Total .....</b>	<b>\$1,358</b>	<b>\$1,330</b>	<b>\$1,312</b>
<b>Other income (expense):</b>			
Allowance for funds used during construction .....	\$ 35	\$ 31	\$ 30
Interest income .....	5	103	33
Other .....	(54)	(52)	(28)
<b>Total .....</b>	<b>\$ (14)</b>	<b>\$ 83</b>	<b>\$ 35</b>
<b>Maintenance and repairs .....</b>	<b>\$1,396</b>	<b>\$1,369</b>	<b>\$1,386</b>
<b>Property tax expenses .....</b>	<b>\$ 173</b>	<b>\$ 176</b>	<b>\$ 195</b>
<b>Cash payments for:</b>			
Interest .....	\$ 614	\$ 529	\$ 517
Income taxes .....	\$ 744	\$ 829	\$ 732

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-K

**(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

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**For the Fiscal Year Ended December 31, 1994**

**or**

**( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 1-1414**

## PACIFIC BELL

A California Corporation

I.R.S. Employer Number 94-0745535

140 New Montgomery Street, San Francisco, California 94105

Telephone - Area Code (415) 542-9000

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Securities registered pursuant to Section 12(b) of the Act:  
See attached Schedule A.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF PACIFIC TELESIS GROUP, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J (1) (a) and (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Higher interstate depreciation rates prescribed by the FCC increased depreciation expense by approximately \$9 million annually. Under incentive-based regulation, the Company is not granted revenue recovery for increased depreciation expense.

Looking ahead, new intrastate depreciation rates authorized by the CPUC in December 1994 will increase depreciation expense by approximately \$30 million annually effective January 1, 1995. As a result of the Company's strategic initiatives, projected capital investment is expected to continue to increase telephone plant levels resulting in higher depreciation expense in future years.

			Change	
Other Employee-Related Expenses	1994	1993*	Amount	Percent
-----				
(\$ millions)				
Pacific Bell				
Postretirement Benefits.....	\$299	\$331	\$ (32)	(9.7)
Healthcare and life insurance				
benefits of active employees..	210	211	(1)	(0.5)
Other benefits.....	76	113	(37)	(32.7)
Payroll taxes.....	159	165	(6)	(3.6)
Pensions.....	9	(6)	15	250.0
-----				
Total Pacific Bell.....	\$753	\$814	\$ (61)	(7.5)
Subsidiaries.....	39	46	(7)	(15.2)
-----				
Total Employee-Related Expenses....	\$792	\$860	\$ (68)	(7.9)
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\* 1993 amounts exclude SFAS 106 curtailment and postemployment benefits accounting change (See "Cumulative Effect of Prior Year Accounting Change" on page 30 and Note B - "Restructuring and Curtailment Charges" on page 45.)

Other employee-related expenses decreased \$68 million, excluding the 1993 effects of the postretirement benefits curtailment and change in accounting principle. (See "Change in Accounting for Postretirement and Postemployment Costs" in Note A on page 45.) The decrease in this category is primarily attributable to the Company's continued force reduction programs. Postretirement benefits expense decreased primarily due to reduced expense associated with the amortization of the transition obligation resulting from the 1993 curtailment. Miscellaneous adjustments to true-up certain benefit liabilities, including a \$36 million reduction in other benefits, also lowered other employee-related expenses.



Due to the higher force reductions, estimated 1994 expense savings from the restructuring of \$187 million exceeded the original estimate by about \$20 million. Charges to the reserve totaled \$278 million, \$52 million more than the original estimate of \$226 million. Of this amount, severance costs of \$170 million exceeded the original \$120 million estimate by \$50 million; systems costs of \$92 million were \$2 million less than the original \$94 million estimate; and facilities consolidation costs of \$16 million exceeded the original \$12 million estimate by \$4 million. The overrun in severance costs reflects the larger than expected force reductions. Severance costs include \$62 million of costs for enhanced retirement benefits paid from pension fund assets which do not require current outlays of the Company's funds. Pension plan gains offsetting the 1994 loss are expected in 1995 through 1997 as more force reductions occur under nonpension-related offerings.

Because of the acceleration of force reductions into 1994, charges to the restructuring reserve in 1995 are expected to be approximately \$50 million less than the \$436 million previously forecast. Also included in the reserve were estimated costs of \$280 million in 1996 and \$155 million in 1997. Actual costs are not expected to differ materially from these estimates. Savings in 1995, primarily in labor costs from force reductions, are expected to slightly exceed 1995 restructuring costs. Annual savings, primarily in labor costs, are expected to reach approximately \$1 billion when the restructuring is completed.

See Schedule II on page 63 for a table detailing the status and activity of the reserve.

#### PENDING REGULATORY ISSUES

##### Postretirement Benefits Other Than Pensions

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In 1992, the CPUC issued a decision adopting, with modification, SFAS 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," for regulatory accounting purposes. The CPUC decision also granted the Company revenue increases for recovery of contributions to tax-advantaged funding vehicles for SFAS 106 costs. Annual price cap decisions by the CPUC granted the Company \$100 million in each of the years 1995 and 1994 for partial recovery of higher costs under SFAS 106. However, the CPUC in October 1994 reopened the proceeding to determine if the Company should continue to recover these costs. The CPUC's order held that related revenues collected after October 12, 1994 are subject to refund. Management believes these costs are appropriately included in the Company's price cap filings, but is unable to predict the outcome.